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BEFORE THE ARIZONA CORPORATION COMMISSION
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2015 APR -8 P 4: 21

AZ CORP COMMISS
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ORIGINAL

IN THE MATTER OF RESOURCE PLANNING)
AND PROCUREMENT)
Arizona Corporation Commission)

DOCKET NO. E-00000V-13-0070

DOCKETED

**JOINT COMMENTS OF TUCSON
ELECTRIC POWER COMPANY
AND UNS ELECTRIC, INC.**

APR 8 2015

DOCKETED BY

Tucson Electric Power Company ("TEP") and UNS Electric, Inc. ("UNS Electric") (jointly referred to as the "Companies"), through undersigned counsel, hereby submit: (i) their joint response to Chairman Bitter Smith's March 24, 2015 letter and (ii) their joint comments to Staff's March 11, 2015 proposed order ("Proposed Order").

I. RESPONSE TO CHAIRMAN BITTER SMITH'S LETTER.

The Companies appreciate Chairman Bitter Smith's sensitivity to potential issues that may result from Staff's recommendations and suggestions regarding the Integrated Resource Planning ("IRP") process. Several of Staff's suggestions could result in fundamental changes in how generation resources are procured and could significantly expand the scope and impact of the Commission's Resource Planning and Procurement Rules, A.A.C. R14-2-701 *et seq.* ("IRP Rules"). As a result, the Companies believe that any material changes to the IRP process would likely require revisions to the IRP Rules or other statutory authority.

The current IRP Rules, as well as annual implementation plans and reporting for renewable resources and energy efficiency, already provide substantial transparency and adequate oversight of the procurement of both supply-side and demand-side resources. Ultimately, it is the utilities that are responsible for providing safe, reliable and economic electric service in their services territories. The

1 prudency of utilities' resource acquisition decisions are thoroughly reviewed through rate cases and
2 other regulatory compliance processes. The Staff recommendations could alter historic treatment of
3 resource management.¹

4 Numerous factors must be considered in reviewing Staff's recommendations, depending on
5 the nature of the recommendation. For example, utilities need significant flexibility in managing
6 generation resources in order to timely respond to changing markets, regulatory environments or
7 environmental regulations that impact the utilities. The current flexibility in the IRP process allowed
8 the Companies to acquire a discounted natural gas combined cycle facility in anticipation of changes
9 in environmental regulations on coal fired power plants. If the Companies had to formally modify
10 their resource plans to include such an acquisition in order to take advantage of a unique, time
11 sensitive opportunity, that opportunity could have been lost.

12 Moreover, resource planning flexibility will be critical in light of looming federal regulations,
13 such as the EPA's Clean Power Plan. Given the anticipated timeline of the EPA 111(d) rules and
14 resulting state implementation plans, the IRPs anticipated to be filed in April 2016 will certainly
15 change.

16 Staff's recommendations potentially raise significant changes in resource procurement for
17 Arizona utilities. Changes to rules or statutes may be necessary in order to implement any
18 appropriate recommendations.

19 **II. COMMENTS ON PROPOSED ORDER.**

20 The Proposed Order states (at paragraph 13) that TEP and UNS Electric made the decision to
21 acquire a unit at the Gila River Power Station "outside the IRP process." The Companies want to
22 make clear that they did comply with the IRP Rules in acquiring Unit 3 at the Gila River Power
23 Station. Moreover, the timing of the circumstances precluded the Companies from expressly
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26 ¹ Any expansion of the IRP Rules or processes must take care to avoid creating any undue interference with
27 utility management.

1 addressing the Gila River acquisition in their 2012 Integrated Resource Plans nor could they have
2 waited until the 2014 Integrated Resource Plans to have the acquisition vetted through a public
3 stakeholder process.

4 In the case of TEP, TEP's April 2012 Integrated Resource Plan did expressly note that, "given
5 the major uncertainty around TEP's existing coal generation", including factors outside of TEP's
6 control, TEP would "continue to explore other resource alternatives."² Shortly after the filing of the
7 2012 Integrated Resource Plan, several events took place directly impacting TEP's coal resources. In
8 mid-2012, final approvals were obtained from the California Public Utility Commission (CPUC) and
9 by the Arizona Corporation Commission to move forward with an alternative BART compliance
10 strategy for the Four Corners Power Plant. In addition, in early 2013, the New Mexico
11 Environmental Department (NMED) issued a revision to its State Implementation Plan (SIP) for the
12 San Juan Generating Station. This revision committed the plant participants to retire Units 2 and 3 at
13 San Juan Generating Station (reducing TEP's coal capacity from 340 MW to 170 MW) by the end of
14 2017. Finally, as part of its on-going portfolio diversification strategy, TEP committed to reduce its
15 coal capacity obligations from 387 MW to 190 MW at the Springerville Generation Station by the
16 end of 2014.

17 As a result of these coal plant capacity reductions (and other actions), TEP followed the
18 requirements of A.A.C. R14-2-705.B to procure resources as a proactive measure to ensure
19 continuing reliable and economic electric service. In May 2013, pursuant to the IRP Rules, TEP
20 issued an RFP for generation resources. In response, TEP choose to acquire Unit 3 at the Gila River
21 Power Station at a significantly discounted price. Had either company waited to vet this acquisition
22 through a public IRP stakeholder process, it would have lost this unique and valuable opportunity.
23 Fortunately, today's current IRP Rules have provisions that contemplate this type of acquisition
24 circumstances.

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27 ² 2012 TEP Integrated Resource Plan at page 337.

1 Furthermore, UNS Electric's 2012 Integrated Resource Plan highlighted UNS Electric's
2 intention to monitor the merchant wholesale market for future plant acquisition opportunities:

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4 *UNS Electric will monitor the market for economically attractive plant acquisition*
5 *opportunities. A low cost, multi-owner acquisition of an existing combined cycle gas*
6 *fired plant would enable UNS Electric to firm up its longer-term capacity needs*
7 *while realizing economies of scale through a multi-owner plant configuration.*³

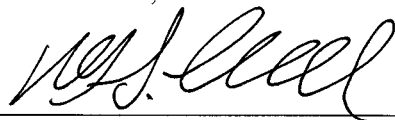
8 Given the results of TEP's 2013 RFP, UNS Electric had a genuine unanticipated opportunity
9 to acquire generation facilities at a clear and significant discount under A.A.C. R14-2-705.B.5.

10 Although Staff believes (as set forth in paragraph 13 of the Proposed Order) that such an
11 acquisition should be vetted through the biennial IRP process, this is not a current requirement of the
12 IRP Rules. The Companies followed the existing IRP Rules in obtaining a valuable resource in a
13 timely manner. This experience further highlights the need to retain flexibility in both the IRP
14 process and resource procurement, as discussed above in response to Chairman Bitter Smith's letter.

15 Finally, the Companies are not requesting any amendment to the Proposed Order. They
16 simply want to clarify that they obtained the Gila River plant in accordance with the requirements of
17 A.A.C. R14-2-705.B.

18 RESPECTFULLY SUBMITTED this 8th day of April, 2015.

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20 UNS ELECTRIC, INC.

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29 ³ 2012 UNS Electric Integrated Resource Plan at page 26.

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